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RUEHNE/AMEMBASSY NEW DELHI 2695
RUEHDO/AMEMBASSY DOHA 1479
RUEHKP/AMCONSUL KARACHI 8751
RUEHLH/AMCONSUL LAHORE 4666
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RUEHBI/AMCONSUL MUMBAI 3740

C O N F I D E N T I A L SECTION 01 OF 03 ISLAMABAD 000391

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TAGS: [ECON](#) [PREL](#) [ETRD](#) [EAID](#) [EINV](#) [EFIN](#) [PGOV](#) [PK](#)

SUBJECT: AMERICAN COMPANIES EXPERIENCE INCREASED DIFFICULTY DOING
BUSINESS IN PAKISTAN

REFS: (A) Islamabad 191, (B) Islamabad 228, (C) Islamabad 288

Classified By: DCM Peter W. Bodde, Reasons 1.4 (b), (d)

¶1. (C) SUMMARY: Embassy Islamabad has received an increased number of complaints from American companies over the last several months regarding unfair practices on the part of GOP, many stemming from action of the caretaker government. General Electric, Oracle, Bell Helicopters and AES have experienced problems in GOP tenders. Chevron and AES have yet to be paid millions of dollars for energy products and services rendered. Netsol and Microsoft have experienced non-compliance or interference in intellectual property rights (IPR) violations. These problems, totaling an estimated USD 1.82 billion, present challenges for American businesses to fairly compete and survive in Pakistan. The GOP's cash crunch is the cause of the slow payments to the energy companies and the cancellation of the Augusta helicopter contract, and may further complicate bidding on GOP contracts. END SUMMARY.

PROBLEMATIC GOP CONTRACT BIDS WORTH USD 1.7 BILLION

¶2. (C) GENERAL ELECTRIC (GE): GE won a tender for a Railways Re-signaling Project with the Ministry of Railways worth USD 46 million in Phase One to re-signal the existing railway lines in Pakistan. Phase one and two are worth USD 150 million. Pakistan Railways made technical changes in the contract so that the full contract can be awarded to another supplier using cheaper Chinese inputs.

¶3. (C) GE CURRENT STATUS: On Dec 19, a letter was sent to the Chairman of the Pakistan Railways by the Ambassador requesting that the transparency of the tender process be respected and that GE's contract award for Phase One of the project be upheld. Neither GE nor the Embassy has received any reply to date. Railway infrastructure was targeted and damaged in the post Bhutto assassination violence and the GOP is currently assessing the extent of the damage and how this will impact planned railway projects.

¶4. (C) ORACLE: Oracle is interested in projects with Pakistan International Airways (PIA) worth USD 23.5 million. PIA plans to implement ERP (Enterprise Resource Planning) and MRO (Maintenance Repair and Overhaul) solutions using prepackaged applications software in order to automate its key business functions such as revenue accounting, inventory, aircraft maintenance, repair and overhaul. The two other competitors are representing German software package SAP.

15. (C) ORACLE CURRENT STATUS: Samina Rizwan, Regional Director, reported on December 19 that Oracle was structured out of the ERP project and could not fairly compete for the MRO project because the only competitor booked all costs under the ERP project to "give away the ERP project for free." Oracle does not plan to submit a tender due to their perceived unfairness in the procurement process.

16. (C) BELL HELICOPTERS: Bell Helicopter bid on a tender with the Pakistan Military worth USD 35 million. The Cabinet Division plans to procure new twin engine and single engine helicopters totaling USD 35 million for which the local distributor for Bell Helicopters has expressed keen interest. Bell Helicopters have served the Cabinet Division and other GOP agencies for the past 15 years.

17. (C) BELL CURRENT STATUS: The GOP tender was structured for the specifications of Agusta helicopters. All competitors were structured out of the bid because of the technical specifics related to Agusta's products. Advocacy letters from the American Embassy and Canadian High Commission were unsuccessful in convincing the GOP to open its tender to competition. January 25 press reports indicate that the GOP is cancelling the Agusta helicopter contract. Comment: The USG has given the GOP two VIP helicopters for the President's use. End comment.

18. (C) AES: AES has the opportunity to build a 1000-1200 MW Coal Fired imported Power Plant near Karachi worth USD 1.6 billion. The Private Power and Infrastructure Board of Pakistan has issued AES Pakistan a Letter of Interest to carry out a feasibility study by March 15.

19. (C) CURRENT STATUS: AES reported to ECON that they are getting signals from the GOP that the tender process for the power plant may not involve a level playing field. AES is awaiting the installation

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of a new government before moving forward with further expansion plans.

NON-PAYMENT ISSUES WITH GOP WORTH USD 85.2 MILLION

110. (C) CHEVRON: The GOP owes Chevron nearly USD 3 billion rupees (USD 50.2 million) in back payments on differential price claims from August 2007- January 2008. The GOP heavily subsidizes consumer gas prices and has not increased local prices since gas was approximately USD 55 per barrel.

111. (C) CHEVRON CURRENT STATUS: The Ministry of Petroleum and Natural Resources is willing to pay, but they and Chevron report that the Ministry of Finance is the hold up. Chevron's headquarters would like to see a reimbursement of at least USD 27.5 million made prior to January 31, 2008 or the company plans to reduce distribution to Pakistan from 40,000 metric tons to 20,000 metric tons. Chevron currently supplies approximately 25 percent of Pakistan's gas and diesel.

112. (C) AES: AES reports that the Pakistan Water and Power Development Authority (WAPDA) consistently does not pay the company in a timely manner for electricity. The Country Manager said that his subsidiary routinely stops plant operations from time to time due to lack of funds available to purchase power plant fuel.

113. (C) AES CURRENT STATUS: AES has received some payment for electricity production and is currently operational but the company is still owed approximately USD 30 million for its operations and services rendered.

THE GOP CASH CRUNCH AND GOVERNMENT SPENDING

114. (C) The GOP's cash crunch is due to increased fuel and food subsidy bills, lack of political will to pass through increased international fuel and food prices to consumers already faced by high essential good inflation in an election year, and increased

government spending on infrastructure projects prior to elections. This increased spending means that there is less money available to pay outstanding bills or contemplate new projects (ref C), particularly since GOP revenues are not able to keep pace with the increased expenditures. The GOP has deferred any decision to pass along increased commodity prices until after the February 18 elections, which will cause further increases in the fiscal and current account deficits. The GOP has also resorted to increased borrowing from the State Bank of Pakistan. We believe the GOP cash crunch is behind the Augusta contract cancellation. Finance Minister Shah (ref A) acknowledged that the GOP's fiscal difficulties (ref A) were holding up payments to the energy companies in a January 4 meeting with the Ambassador.

REPORTED IPR VIOLATIONS WORTH USD 30 MILLION

¶15. (C) NETSOL TECHNOLOGIES: NetSol has a pending IPR investigation worth USD 20 million. The company reported Dec 20 that two former employees stole secret information from the company and launched their own public company in Pakistan to sell the exact same products. The company filed a complaint with the Federal Investigative Agency (FIA) Nov 22 and investigators then arrested one of the partners and scanned his laptop which contained over 100 secret corporate documents. On December 18, 2007 FIA contacted NetSol to say the Supreme Court Justice Nawaz Abbasi, a family friend of one of the accused, called their investigators in for a meeting and asked them to drop the case, return the laptop, and dismiss evidence.

¶16. (C) NETSOL CURRENT STATUS: Embassy drafted letters requesting information from the FIA on the status of this on-going investigation. Embassy pressure was successful. FIA retained the laptop, the company dissolved, a non-disclosure agreement was signed, and the Supreme Court justice moved his pressure down to a civil suit.

¶17. (C) MICROSOFT CORPORATION: GOP currently uses 90 percent of pirated Microsoft Software for its operations worth USD 10 million. In an April meeting with now former Prime Minister Shaukat Aziz at the Economic Forum Summit in Boao, China, Microsoft's Bill Gates

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proposed that the GOP pay USD 10 million over a five year period for legal licenses for government desktops, and asked that the PM respond within 45 days. The deadline passed on June 5 without a response from the GOP.

¶18. (C) MICROSOFT CURRENT STATUS: Bill Gates sent a letter to former Prime Minister in June 2007 to follow up on their agreement and Microsoft has yet to receive a response.

¶19. (C) COMMENT: With an estimated total of approximately USD 1.82 billion at stake, Embassy Islamabad considers the increased activity a troubling trend. Increased economic and financial problems continue to compound the GOP's political difficulties. The newly elected government, regardless of party, will have to face mounting economic challenges. Embassy will continue to closely monitor each situation involving these and other American companies and raise each issue with the appropriate GOP officials on a regular basis. END COMMENT.

PATTERSON

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